

Message Text

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PAGE 01 BUENOS 02791 191441Z

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SUBJECT: REGULATION OF FOREIGN BANKS

REF: STATE A-1911

1. GOA LAWS, REGULATIONS, PROCEDURES, ETC GIVE PRIORITY TO FINANCIAL ENTITIES IN APPROXIMATELY FOLLOWING ORDER: 1) OFFICIAL BANKS 2) BANKS IN INTERIOR 3) NATIONAL BANKS OF BUENOS AIRES 4) FOREIGN BANKS. GENERAL GOA OBJECTIVE IS TO REDUCE SIZE AND INFLUENCE OF FOREIGN ENTITIES IN FINANCIAL SECTOR. FOREIGN COMMERCIAL BANKS SUBJECT TO BOTH FORMAL AND INFORMAL DISCRIMINATION. DESPITE DISCRIMINATORY TREATMENT, FOREIGN BANKS APPEAR TO BE DOING QUITE WELL, IN PART DUE TO SUPERIOR EFFICIENCY AND SERVICE.

2. MAJOR CURRENT BILATERAL ISSUE IN BANKING SECTOR IS ARGENTINE RENATIONALIZATION OF SEVERAL LOCAL COMMERCIAL BANKS PURCHASED BY CHASE, FNCB AND MORGAN GUARANTY SINCE 1966. AMOUNT AND TERMS OF COMPENSATION STILL UNKNOWN BUT US BANKS HOPEFUL FOR FAIR SETTLEMENT.

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PAGE 02 BUENOS 02791 191441Z

3. ESTABLISHMENT NEW BANKING OPERATIONS IN ARGENTINA ESSENTI-

ALLY CONTROLLED BY FOREIGN INVESTMENT LAW NOVEMBER 7, 1974, AND FINANCIAL ENTITIES LAW DECEMBER 18, 1973. THESE LAWS PROHIBIT NEW FOREIGN INVESTMENT IN FINANCIAL SECTOR IF OVER 20 PERCENT OF EQUITY. EXCEPTION TO ABOVE REGULATION ALLOWED FOR INVESTMENT BANKS AND BRANCHES FOREIGN BANKS IF (A) EFFECTIVE RECIPROCITY IN FORCE AND (B) CONVENIENT TO NATIONAL INTEREST. GOA DOES NOT APPEAR TO REQUIRE FORMAL RECIPROCITY AGREEMENT.

4. CENTRAL BANK CIRCULAR B 1106 FEBRUARY 21, 1974 STIPULATES COMMERCIAL BANKS WHICH WISH TO RETAIN STATUS AS "NATIONAL ENTITIES" HAVE SIX MONTHS TO ADJUST THEIR EQUITY POSITION SO FOREIGN PARTICIPATION REDUCED TO UNDER 20 PERCENT AS REQUIRED BY FOREIGN INVESTMENT LAW AND FINANCIAL ENTITIES LAW. SEVERAL BANKS AFFECTED ARE EXPECTED TO ADJUST EQUITY PARTICIPATION TO MAINTAIN STATUS AS "NATIONAL ENTITIES" BECAUSE OF FAVORABLE CENTRAL BANK TREATMENT AFFORDED TO NATIONAL BANKS.

5. CENTRAL BANK CLOSELY SUPERVISES FINANCIAL SERVICES OF ENTIRE BANKING COMMUNITY. CENTRAL BANK PERMISSION IS REQUIRED TO OPEN NEW BRANCH, COMPUTERIZE SERVICE, OR EVEN TO UNDERTAKE MINOR ADJUSTMENTS IN LOCATION OF EQUIPMENT AND SERVICE. CENTRAL BANK ASSUREDLY USES THIS ADMINISTRATIVE CONTROL TO PROMOTE INTERESTS OF NATIONAL AS OPPOSED TO FOREIGN BANKS.

6. LAW 2-520 AUGUST 2, 1973 NATIONALIZED ALL COMMERCIAL BANK DEPOSITS. UNDER CURRENT SYSTEM, CENTRAL BANK PAYS COMMISSION TO COMMERCIAL BANKS FOR HANDLING DEPOSITS FOR ITS ACCOUNT. CENTRAL BANK ALSO PERIODICALLY GRANTS CREDIT LINES TO COMMERCIAL BANKS FOR EXPANSION THEIR LOAN PORTFOLIOS. OTHER THAN EXPORT FINANCING WHICH UNLIMITED, COMMERCIAL BANK LENDING OPERATIONS ENTIRELY CONTROLLED BY SIZE OF CREDIT LINE GRANTED BY CENTRAL BANK.

7. UNDER THIS SYSTEM, FOREIGN BANKS SUBJECT TO SEVERAL FORMS DISCRIMINATION. CENTRAL BANK PROVISION CREDIT LINES FAVORS NATIONAL AS OPPOSED TO FOREIGN BANKS. CREDIT LINES BASED ON A PERCENTAGE OF DEPOSIT INCREASE DURING PREVIOUS PERIOD AND PERCENTAGE HIGHER FOR NATIONAL BANKS. ALSO, CENTRAL BANK COMMISSION SCHEDULE FOR HANDLING OF DEPOSITS IS MORE FAVORABLE TO NATIONAL BANKS. COMMISSION RATES FOR DIFFERENT DEPOSIT LIMITED OFFICIAL USE

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ACCOUNTS EQUAL FOR ALL BANKS, BUT NATIONAL BANKS RECEIVE HIGHER INCENTIVE COMMISSION FOR DEPOSIT GROWTH.

8. EMBASSY BELIEVES ABOVE INFORMATION RESPONSIVE TO REPAIR, BUT PLEASED SUPPLY ADDITIONAL INFORMATION IF REQUESTED.
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